



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
SPENCER COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2000**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE SPENCER COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2000**

The Auditor of Public Accounts has completed the Spencer County Fiscal Court audit for fiscal year ended June 30, 2000. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Fund balances increased by \$44,463 from the prior fiscal year, resulting in a cash surplus of \$550,954 as of June 30, 2000. Revenues increased by \$228,387 from the prior year and disbursements increased by \$580,655.

#### **Debt Obligations:**

Total bonded debt principal as of June 30, 2000, was \$460,000. Future collections of \$530,168 are needed over the next five years to pay all bonded debt principal and interest.

#### **Report Comments:**

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

#### **Deposits:**

The fiscal court's deposits were uninsured and uncollateralized by bank securities by \$184,042 on August 31, 1999.



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flannery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable David Jenkins, Spencer County Judge/Executive  
Members of the Spencer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Spencer County, Kentucky, as of June 30, 2000, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Spencer County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Spencer County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising from cash transactions as of June 30, 2000, of Spencer County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable David Jenkins, Spencer County Judge/Executive  
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In accordance with Government Auditing Standards, we have also issued our report dated June 20, 2001 on our consideration of Spencer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Spencer County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 20, 2001



SPENCER COUNTY OFFICIALS

Fiscal Year Ended June 30, 2000

**Fiscal Court Members:**

David Jenkins	County Judge/Executive
Ray Jewell	Magistrate
Anthony Travis	Magistrate
Scott Herndon	Magistrate
Bill Drury	Magistrate
David Goodlett	Magistrate

**Other Elected Officials:**

Robert Coots	County Attorney
David Houghlin	Jailer
Robin G. Waldrige	County Clerk
Phyllis Shafer	Circuit Court Clerk
Steve Coulter	Sheriff
John Sammy Crafton	Property Valuation Administrator
Dennis McClain	Coroner

**Appointed Personnel:**

Doug Williams	County Treasurer
Karen Curtsinger	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

SPENCER COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2000

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash \$ 361,477

Investments 139

Road and Bridge Fund:

Cash 68,971

Jail Fund:

Cash 21,047

Payroll Withholding Account - Cash 6,234

Retirement Account - Cash 6,017 \$ 463,885

Debt Service Fund Type

Public Properties Corporation Bond Fund:

Cash \$ 829

Investments 98,491 99,320

Other Resources

Debt Service Fund Type

Public Properties Corporation Bond Fund:

Amounts to be Provided in Future Years for Bond Payments (Note 4) 460,000

Total Assets and Other Resources \$ 1,023,205

The accompanying notes are an integral part of the financial statements.

SPENCER COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2000  
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

Payroll Withholding Account	\$	6,234	
Retirement Account		<u>6,017</u>	\$ 12,251

Debt Service Fund Types

Public Properties Corporation Bond Fund:		
Bonds Principal Not Matured (Note 4)		460,000

Fund Balances

Reserved:

Debt Service Fund Type

Public Properties Corporation Bond Fund	99,320
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Unreserved:

General Fund Type

General Fund	\$	361,616	
Road and Bridge Fund		68,971	
Jail Fund		<u>21,047</u>	<u>451,634</u>

Total Liabilities and Fund Balances			<u>\$ 1,023,205</u>
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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

SPENCER COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2000

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,256,954	\$ 1,290,716	\$ 822,276	\$ 47,664
Transfers In	377,760		5,000	157,840
Lease-Purchase Proceeds	59,000	59,000		
Total Cash Receipts	<u>\$ 2,693,714</u>	<u>\$ 1,349,716</u>	<u>\$ 827,276</u>	<u>\$ 205,504</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,155,053	\$ 1,160,510	\$ 696,489	\$ 201,758
Transfers Out	377,760	162,850	214,910	
Bonds:				
Principal Paid	85,000			
Interest Paid	29,240			
Trustee Fees Paid	2,198			
Total Cash Disbursements	<u>\$ 2,649,251</u>	<u>\$ 1,323,360</u>	<u>\$ 911,399</u>	<u>\$ 201,758</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 44,463	\$ 26,356	\$ (84,123)	\$ 3,746
Cash Balance - July 1, 1999	<u>506,491</u>	<u>335,260</u>	<u>153,094</u>	<u>17,301</u>
Cash Balance - June 30, 2000	<u>\$ 550,954</u>	<u>\$ 361,616</u>	<u>\$ 68,971</u>	<u>\$ 21,047</u>

\* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.



SPENCER COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 Fiscal Year Ended June 30, 2000  
 (Continued)

General Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Local Government Economic Assistance Fund	Community Development Block Grant Fund	Public Properties Corporation Bond Fund
\$ 120	\$ 96,166 10	\$ 12 214,910
\$ 120	\$ 96,176	\$ 214,922
\$ 120	\$ 96,176	\$
		85,000 29,240 2,198
\$ 120	\$ 96,176	\$ 116,438
\$	\$	\$ 98,484 836
\$ 0	\$ 0	\$ 99,320

SPENCER COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Spencer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation Bond Fund and the Public Improvement Corporation Fund, a currently inactive entity, as part of the reporting entity.

Additional - Spencer County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Spencer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Spencer County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Spencer County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund and Local Government Economic Assistance Fund.

SPENCER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and include funds for the Public Properties Corporation Bond Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Community Development Block Grant Fund is reported as a Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Spencer County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Bond Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

SPENCER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Spencer County Fiscal Court: The Spencer County Tourism Commission and the Spencer County Library.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.22 percent. Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

SPENCER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$184,042 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 1999.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 250,000
Uncollateralized and uninsured	<u>184,042</u>
Total	<u><u>\$ 434,042</u></u>

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Marketable Securities	<u>\$ 98,491</u>	<u>\$</u>	<u>\$</u>	<u>\$ 98,491</u>	<u>\$ 98,491</u>

SPENCER COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2000  
 (Continued)

Note 4. Long-Term Debt

Bonds outstanding of Public Properties Corporation Bond Fund are \$460,000 as of June 30, 2000. These bonds were issued on July 1, 1984, at various interest rates ranging from 9 percent to 12.75 percent per the Spencer County Public Properties Corporation for road construction and repair.

These outstanding 1984 Series A Bonds were refunded on January 1, 1995, by the application of the proceeds of the bonds. The refunded bond plan was undertaken to obtain 4.5 percent to 6 percent.

Principal bond payment requirements and scheduled interest for 5 years are:

<u>Due During Fiscal Year Ending</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2001	\$ 24,365	\$ 85,000
June 30, 2002	19,598	90,000
June 30, 2003	14,355	90,000
June 30, 2004	8,850	95,000
June 30, 2005	3,000	100,000
Totals	<u>\$ 70,168</u>	<u>\$ 460,000</u>

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

<u>Description</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>Term of Agreement</u>	<u>Amount</u>
Ambulance	Varies	8/1/01	48 Months	\$ 11,507
Ambulance	Varies	8/20/03	48 Months	\$ 9,213
Vehicles & Telephone	Varies	1/20/05	60 Months	\$ 54,491

Note 6. Insurance

For the fiscal year ended June 30, 2000, Spencer County was a member of the Kentucky Association of Counties' All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Subsequent Events

The County entered into a contract to purchase the former Health Department Building and Land for a total purchase price of \$50,000 on March 19, 2001. This property will be used for the occupancy of the Spencer County Sheriff's Office and Spencer County Dispatch Office.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE





SPENCER COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2000

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,245,062	\$ 1,290,716	\$ 45,654
Road and Bridge Fund	872,876	822,276	(50,600)
Jail Fund	203,597	47,664	(155,933)
Local Government Economic Assistance Fund	2,000	120	(1,880)
<u>Capital Projects Fund Type</u>			
Community Development Block Grant Fund	<u>300,000</u>	<u>96,166</u>	<u>(203,834)</u>
Totals	<u>\$ 2,623,535</u>	<u>\$ 2,256,942</u>	<u>\$ (366,593)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 2,623,535
Add: Budgeted Prior Year Surplus			<u>505,655</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,129,190</u>

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SCHEDULE OF OPERATING REVENUE



SPENCER COUNTY  
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2000

	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Capital Projects Fund Type	Debt Service Fund Type
REVENUE:				
Taxes	\$ 564,966	\$ 564,966	\$	\$
In Lieu Tax Payments	9,172	9,172		
Excess Fees	63,621	63,621		
License and Permits	225,250	225,250		
Intergovernmental Revenues	1,022,390	926,224	96,166	
Charges for Services	299,583	299,583		
Miscellaneous Revenues	52,395	52,395		
Interest Earned	19,577	19,565		12
Total Operating Revenue	<u>\$ 2,256,954</u>	<u>\$ 2,160,776</u>	<u>\$ 96,166</u>	<u>\$ 12</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES





SPENCER COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2000

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 664,163	\$ 630,005	\$ 34,158
Protection to Persons and Property	617,119	419,476	197,643
General Health and Sanitation	20,585	34,352	(13,767)
Social Services	25,110	17,947	7,163
Recreation and Culture	29,570	17,883	11,687
Roads	692,793	560,721	132,072
Debt Service	220,990	17,976	203,014
Capital Projects	129,000	89,929	39,071
Administration	429,860	270,599	159,261
Total Operating Budget - All General Fund Types	\$ 2,829,190	\$ 2,058,888	\$ 770,302
Other Financing Uses:			
Transfers to Public Property			
Corporation Bond Fund	214,910	214,910	
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 3,044,100</u>	<u>\$ 2,273,798</u>	<u>\$ 770,302</u>

Expenditure Categories	CAPITAL PROJECTS FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Capital Projects	<u>\$ 300,000</u>	<u>\$ 96,166</u>	<u>\$ 203,834</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
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Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable David Jenkins, Spencer County Judge/Executive  
Members of the Spencer County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Spencer County, Kentucky, as of and for the year ended June 30, 2000, and have issued our report thereon dated June 20, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Spencer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spencer County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 20, 2001

## COMMENT AND RECOMMENDATION





SPENCER COUNTY  
COMMENT AND RECOMMENDATION

Fiscal Year Ended June 30, 2000

NONCOMPLIANCES

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 1999, \$184,042 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Judge Executive's Response:*

*Pledges on the County's Deposits have been made sufficient to date.*

PRIOR YEAR FINDINGS

NONCOMPLIANCES

The County Should Have Required Depository Institutions To Pledge Additional Securities Of \$210,723 As Collateral To Protect Deposits

On April 12, 1999, \$210,723 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Judge/Executive Response:*

*Treasurer will monitor situation and makes changes accordingly.*

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CERTIFICATION OF COMPLIANCE –  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

SPENCER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

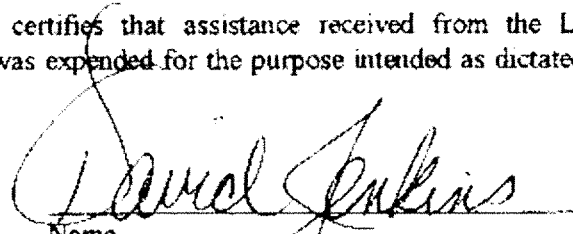
Appendix A

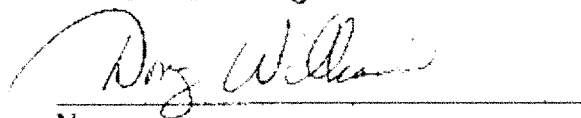


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
SPENCER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Spencer County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Name  
County Judge/Executive

  
\_\_\_\_\_  
Name  
County Treasurer